

14 APR 1949

GENERAL

1. US approves Italian-Yugoslav air discussions--The Department of State has informed US Embassy Rome of its view that the US is now able, in the implementation of its civil aviation policy toward the USSR and the Satellites, to consider making a distinction between Italian-Yugoslav air operations and operations between Western countries and the other Satellite states. The Department has therefore authorized the Embassy to inform the Italian Foreign Office, if the British Ambassador concurs, that the US is mindful of Italy's special relations with Yugoslavia and would not object to Italian-Yugoslav discussions concerning an exchange of provisional commercial air rights on a limited basis. The Department suggests, however, that the Italians merely explore Yugoslav proposals and that no definite commitment to negotiate be made.

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2. US opposition to Belgian-Polish air agreement--The Department of State has instructed US Embassy Brussels to reiterate in the strongest terms to the Belgian Government the dissatisfaction of the US with the tentative Belgian approval for commencement of Polish commercial flights to Brussels. The Department believes that it detects "serious soft spots" in the US-UK air policy toward the Satellites as evidenced by the Belgian-Polish arrangement for reciprocal flights between Brussels and Warsaw, by a British willingness to grant clearance for a special Hungarian overflight of British Zone Germany, and by Dutch approval of this flight. The Department expresses the hope that the Belgian Government will postpone a final decision on the Polish flights until the US has been given an opportunity to explain its views concerning Satellite aviation policy.

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EUROPE

3. SPAIN: US willing to approve Export-Import credits for Spain--
The Department of State has informed US Embassy Madrid that it will no longer object in principle to applications for Export-Import Bank credits intended to rehabilitate the Spanish economy. The Department desires the Embassy, however, to emphasize to the Spanish Foreign Office that no assurance can be given that the Export-Import Bank will act favorably on such loan applications and that the Bank will not grant credits unless there is a reasonable prospect of repayment. The Department expresses its serious doubts that Spain will be able to make repayment. The Department instructs the Embassy to make clear to the Spanish authorities that a general demonstration of Spain's capacity and willingness to make more effective use of its resources is prerequisite to obtaining financial aid from the US.

ARMY-C

US suggests commercial treaty with Spain--The Department has also advised US Embassy Madrid to suggest at its discretion to the Spanish Foreign Office that the Department is prepared to explore with the Spanish Government the possibility of negotiating a comprehensive treaty of the type the US signed with Italy in 1948. The Department says it will prepare a draft of such a treaty, if the Spanish reaction is favorable.

Franco reportedly holds reform decrees pending UN action--
The US Military Attache in Madrid has learned from a usually reliable source that Franco holds three "liberalizing" decrees which he will release whenever the UN permits the return of ambassadors to Madrid. The three "liberal" decrees reportedly deal with the suppression of the Falange, a reorganization of the army, and plans for a freer economy. Source also reports that plans, said to have the blessing of don Juan, are afoot to restore the monarchy gradually, with a four-year transitional government headed by Franco.

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(CIA Comment: CIA believes that the prevalence of such reports as this in Madrid is symptomatic of the strong pressures within Spain which may eventually bring about substantial changes in the Government and its policies.)

FAR EAST

4. **SIAM: Concern over US policy in Southeast Asia**--US Embassy Bangkok has learned from a reliable source that the Siamese Ambassador to the US recently told the Siamese Cabinet and Army General Staff that the US Government is divided over what course of action to take in Southeast Asia and the Far East. The Ambassador reportedly predicted that the US would ultimately take the view that it is too late to save the Far East and Southeast Asia from being overrun by Communists. The US Embassy further reports a growing belief among Siamese that the US has pretty much written off Southeast Asia and Siam.

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The Department of State has replied that it is concerned over the destructive effect of the Siamese Ambassador's views and has instructed the Embassy to refute such views by referring to the specific economic and military assistance proposals which are under consideration for Siam.

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